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 C O N F I D E N T I A L PARIS 23403

FOR JAMES BUCKLEY FROM AMBASSADOR GALBRAITH

PLEASE PASS TO COMMERCE AND DOD FOR OLMER AND EKLE

E.O. 12065: GDS 7/8/82
 TAGS: ENRG, UK, NO, NL
 SUBJ: NORWEGIAN GAS DEVELOPMENT REPORT NO. 2

EXDIS

1. (C - ENTIRE TEXT)

2. AFTER READING SOME PUBLISHED MATERIAL AND THINKING A BIT I HAVE BEGUN TO FORMULATE IN MY MIND A SPECIFIC PROJECT WHICH MIGHT MAKE COMMERCIAL SENSE AND COULD SOLVE OUR POLITICAL PROBLEMS. I BELIEVE IT FUNDAMENTAL TO THE SUCCESS OF MY MISSION THAT ANY PROJECT MUST MAKE COMMERCIAL AND TECHNOLOGICAL SENSE. ALL GOVERNMENTS CAN HOPE TO DO, AT BEST, IS TO EASE ASIDE POLITICAL OBSTACLES TO AN OTHERWISE COMMERCIAL Viable PROJECT. WE NEED WILLING BUYERS AND SELLERS AROUND WHICH A PROJECT CAN BE BUILT. I TRAVELLED TO LONDON LAST WEEK AND MET WITH REPRESENTATIVES OF SHELL (ROBERT HART, ANDRE BENARD, JAN KLOOTWIJK, IAN MCGRATH, AND FLORIS OUWEHAND), ROBERT BELGRAVE OF CHATHAM HOUSE AND CLIVE JONES ET AL AT THE DEPARTMENT OF ENERGY. THE MEETINGS WERE VERY EDUCATIVE AND ENCOURAGING.

3. THE PROJECT I THINK WE SHOULD NOW PURSUE WOULD INVOLVE COOPERATION BETWEEN OWNERS OF THE NORWEGIAN GAS AND GASUNIE IN THE NETHERLANDS. THIS WOULD NECESSITATE COOPERATION BETWEEN THE NORWEGIAN AND DUTCH GOVERNMENTS. THE FOLLOWING FACTORS, INTER ALIA, MUST BE CONSIDERED:

(A) WE HAVE WILLING BUYERS IN EUROPE, DESPITE THE FACT THAT WE ARE IN A BUYERS MARKET AND MAY REMAIN SO FOR SEVERAL YEARS. GAZ DE FRANCE AND RUHRGAS MIGHT NEGOTIATE NOW, AT LEAST ON A FORMULA BASIS, FOR DELIVERIES IN THE 1990'S. THIS WOULD GIVE A BASE TO THE PROJECT.

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(B) IT IS UNLIKELY THAT THE LARGE NEW NORWEGIAN RESERVES WILL BE AVAILABLE TO EUROPE BEFORE THE 1990'S. THE NEW GAS PIPELINE FOR STATFJORD IS SCHEDULED FOR COMPLETION IN 1985, BUT THIS IS NOT A LARGE ENOUGH SOURCE TO SUPPLY EUROPE A NEW TRANCHE.

SLEIPNER WILL PROBABLY BE THE NEXT NORWEGIAN FIELD BUT IT IS NOT IN ITSELF AN ALTERNATIVE TO SOVIET GAS AND IT PROBABLY IS UNWISE TO COUNT ON DELIVERY OF SLEIPNER GAS BEFORE 1991. BLOCK 31/2, TROLL AND THE SURROUNDING AREA PROBABLY WON'T BE READY BEFORE 1995. THIS IS A HUGE FIELD, HOWEVER AND REPRESENTS AN ALTERNATIVE TO ADDITIONAL SOVIET GAS.

(C) UNDER CERTAIN CONDITIONS THE DUTCH WOULD BE ABLE, INDEED MIGHT BE ANXIOUS, TO EXPORT ENOUGH ADDITIONAL GAS DURING THE 1985-1990 PERIOD TO COMPENSATE FOR ANY DELAYS IN THE DELIVERY OF CONTRACTED FOR SOVIET GAS AND TOGETHER WITH SLEIPNER AND OTHER AREAS MEET THE EUROPEAN DEMAND UNTIL TROLL IS READY IN THE MIDDLE 1990'S.

(D) BRITAIN WITH ITS RELATIVELY HIGH CONSUMPTION OF PREMIUM GAS IS NOT APT TO BE A MAJOR INTERIM OR LONG RANGE EXPORTER OF GAS, DESPITE ITS INTENTION TO DEVELOP NEW GAS RESERVES.

4. THE PLAN WOULD BE FOR THE DUTCH TO INCREASE THEIR EXPORTS THROUGH THE 1980'S. THIS WOULD SUIT THE DUTCH NEED FOR INCREASED EARNINGS. TO MEET THEIR LONG RANGE NEEDS INTO THE 21ST CENTURY WE WOULD TRY TO BRING NORWEGIAN TROLL GAS INTO HOLLAND FOR STORAGE AND DISTRIBUTION INTO EUROPE. SOME OF THE EARNINGS FROM THESE EXPORTS COULD BE PUT IN AN INTEREST EARNING RESERVE AND BE USED TO PAY FOR FUTURE PAYMENTS FOR NORWEGIAN GAS. TO AGREE TO THIS SCHEME THE DUTCH WILL PROBABLY REQUIRE THAT A PIPELINE BE BUILT TO HOLLAND FROM NORWAY WATERS. IT MIGHT GO IN THE FIRST INSTANCE INTO HOLLAND FROM EKOFISK WITH A LINK TO SLEIPNER AND EVENTUALLY TO TROLL. THE POSSIBLE VARIATIONS IN THIS PIPELINE CANNOT BE INTELLIGENTLY DEALT WITH HERE AND NOW BUT WE WILL NEED SOME SORT OF MAJOR PIPELINE PLAN LINKING NORWAY AND HOLLAND.

5. THERE ARE A MYRIAD OF PROBLEMS TO SOLVE: THE QUALITY OF NORWEGIAN GAS CAN BE DIFFERENT FROM DUTCH GAS; THERE ARE DIFFERENT OWNERS IN DIFFERENT FIELDS; WHO BUILDS THE DUTCH-NORWEGIAN PIPELINE AND WHERE ARE THE MATERIALS PROCURED, ETC. ETC. BUT WE DO HAVE THE RUDIMENTS OF A DEAL. GAS PURCHASE CONTRACTS CAN BE MADE TO FORM A CREDIT BASIS FOR THE PAYMENT OF A NEW PIPELINE AND THE DEVELOPMENT OF THE NORWEGIAN GAS FIELDS.

FOR JAMES BUCKLEY FROM AMBASSADOR GALBRAITH

PLEASE PASS TO COMMERCE AND DOD FOR OLMER AND EKLE

6. NONE OF THIS WOULD RUN COUNTER TO THE PRESENT TIMING OF THE NORWEGIAN GOVERNMENT. THE OIL MIGHT BE FIRST TAKEN OUT OF TROLL AND THE GAS BE PHASED IN AT A REALISTIC RATE. NOR WOULD THIS PLAN PRECLUDE A NORWEGIAN TIE-IN WITH THE BRITISH AT FRIGG AND A LAND-BASED PIPELINE DOWN THROUGH BRITAIN WITH A LINK DIRECTLY TO FRANCE, WHICH BOTH THE BRITISH STEEL CORPORATION AND FRANCE WOULD LIKE TO SEE HAPPEN. NOR WOULD IT PRE-EMPT THE EUROPEAN MARKET FROM ALGERIA (IT WOULD TEND TO KEEP THE ALGERIANS IN LINE) OR OTHER SUPPLIERS OF LNG. THERE WILL BE SOVIET GAS IN EUROPE BUT THE PLAN COULD TAKE UP THE SLACK CAUSED BY DELAYS IN THE FIRST YAMAL PIPELINE AND PREEMPT A SECOND YAMAL LINE.

7. I THINK THE NEXT STEP SHOULD BE TO TALK TO THE DUTCH AND IF THEREBY ENCOURAGED THEN TALK TO THE NORWEGIANS PERHAPS WHEN THEY ARE IN WASHINGTON AUGUST 16 TO 18.

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MEANWHILE I THINK IT IMPORTANT WE STOP LEANING ON THE NORWEGIANS TO DO SOMETHING THAT IS IMPRACTICABLE. ALSO WE SHOULD NOT DISCUSS THIS SCHEME UNLESS AND UNTIL WE ARE ENCOURAGED BY THE DUTCH. PERHAPS OUR EMBASSY IN OSLO COULD BE ASKED TO DENY ACCESS TO THEIR CLIENT BY WANDERING AMERICAN OFFICIALS. I SUSPECT EMBASSY OSLO IS BEST EQUIPPED TO SUPERVISE ANY NEGOTIATIONS WITH THE NORWEGIANS AND I HOPE THE EMBASSY WOULD BE REPRESENTED IN WASHINGTON AUGUST 16 - 18.

8. ALL OF THIS MAY TURN OUT TO BE HAIRBRAINED. BUT IT IS A START AND IT MAY GIVE RISE TO SOMETHING, PERHAPS TO SOMETHING ELSE WE DO NOT NOW UNDERSTAND OR KNOW ABOUT, BUT TRIAL AND ERROR IS OFTEN THE BEST WAY TO GO.
GALBRAITH
END OF MESSAGE

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